Basel Committee
on Banking Supervision

Consultative Document

Pillar 3 disclosure requirements for remuneration

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The Basel Committee welcomes comments on all aspects of this consultative document by 25 February 2010. Comments should be sent by e-mail to baselcommittee@bis.org. Alternatively, comments may be addressed to the following address: Basel Committee on Banking Supervision, Bank for International Settlements, Centralbahnplatz 2, CH-4002 Basel, Switzerland. All comments may be published on the BIS website unless a commenter specifically requests confidential treatment.

I. Background and objectives

1. In July 2009, as part of its *Enhancements to the Basel II framework*, the Basel Committee on Banking Supervision introduced supplemental Pillar 2 guidance to address a number of risk management weaknesses revealed during the financial crisis that began in 2007. In this context, the Committee notably incorporated within Pillar 2 the Financial Stability Board's *Principles for Sound Compensation Practices*, which were issued in April 2009 to improve compensation practices and strengthen supervision in this area. Paragrpah 94 of the supplemental Pillar 2 guidance included the principle that "*Firms must disclose clear, comprehensive and timely information about their compensation practices to facilitate constructive engagement by all stakeholders, including in particular shareholders"*.[1]

2. In its *Peer Review Report on Compensation* (March 2010), the Financial Stability Board (FSB) noted differences in the existing disclosure requirements on compensation across jurisdictions and noted that these differences could hamper the comparability of the disclosed facts and, as a consequence, the effectiveness of disclosure as a whole. Accordingly, to promote greater convergence of disclosure on compensation, the FSB made the following recommendation:

Recommendation 8: "The Basel Committee in consultation with the FSB should consider incorporating disclosure requirements for compensation into Pillar 3 of Basel II, to add greater specificity to the current requirements for compensation disclosure under Pillar 2, by the end of 2010."

3. The Pillar 3 disclosure requirements proposed by the Basel Committee respond to this recommendation. The Committee believes that these additional Pillar 3 requirements on remuneration will support an effective market discipline and will allow market participants to assess the quality of the compensation practices and the quality of support for the firm's strategy and risk posture. The requirements have been designed to be sufficiently granular and detailed to allow meaningful assessments by market participants of the banks' compensation practices, while not requiring disclosure of sensitive or confidential information.

4. The Committee's additional Pillar 3 disclosure requirements on remuneration cover the main components of sound compensation practices, consistent with paragraphs 86 to 92

[1] For further discussion, see Supplemental Pillar 2 Guidance ("Sound compensation practices" section) of the Committee's July 2009 *Enhancements to the Basel II framework*, available at www.bis.org/publ/bcbs157.htm).

of the *Supplemental Pillar 2 Guidance* issued in July 2009 and the corresponding FSB principles. As a result, banks will be requested to disclose qualitative and quantitative information about their remuneration practices and policies covering the following areas:

- The governance/committee structures (paragraph 86)
- The design/operation of remuneration structure, frequency of review (paragraph 87)
- The independence of remuneration for risk/compliance staff (paragraph 88)
- The risk adjustment methodologies (paragraph 89)
- The link between remuneration and performance (paragraph 90)
- The long-term performance measures (deferral, malus, clawback – paragraph 91)
- The types of remuneration (cash/equity, fixed/variable – paragraph 92)

The structure and content of the disclosure requirements also take account of the considerations listed in the FSB's Implementation Standard 15 on disclosure.

II. Pillar 3 disclosure requirements

5. The disclosure requirements for remuneration should be incorporated into the Pillar 3 disclosure of banks. Unless specifically noted below, the general principles and rules governing Pillar 3 apply.

Scope of application

6. It is recognised that there is a broad spectrum of banks that are subject to Basel II and that the proposed disclosures may not be relevant for all such banks or for all their business lines. In certain jurisdictions, banks subject to Basel II may not be of sufficient size to have a separate Remuneration Committee, or may not have resources to implement a fully functional deferral and performance adjustment scheme.

7. Pillar 3 remuneration disclosure requirements therefore may include thresholds of materiality or proportionality, based on those already applying to existing Pillar 3 disclosures. This may have two aspects:

- whether the bank as a whole is exempt fully or partly from disclosure, depending on the risk profile of the bank, and
- whether certain types of disclosure may be exempted on grounds that the information is not material, or is proprietary or confidential.

Method and frequency of disclosure

8. Banks will be expected to publish the disclosures on an annual basis at a minimum. Banks should aim to publish as soon as practicable after the information is available.

9. Banks will be expected as far as possible to disclose the above information on one site or in one document. Banks may however refer to a different site or document:

- if an equivalent disclosure has already been made under an accounting or listing requirement relating to the same time period (in such cases, the bank's regulator will have discretion to recognise the existing disclosures that are acceptable); or
- to indicate where additional information (not explicitly required under Pillar 3) may be found.

In such cases, the bank must ensure that access to the site or document is readily available and public.

10. To improve clarity of disclosure, supervisors may request the information to be disclosed:

- in table and/or chart format.
- for previous years as well as the current reporting year (where providing quantitative historical baselines aids interpretation, supervisors should request that quantitative information for previous years be shown, although this requirement may be waived during the first year and banks may be permitted to report historical data only as far back as the first year of application of these requirements).

Key disclosures

11. The following are the main disclosures on remuneration that banks should include in their Pillar 3 document. Banks are strongly encouraged not only to disclose the required information, but to articulate as far as possible how these factors complement and support their overall risk management framework.

Remuneration		
Qualitative disclosures	(a)	Information relating to the bodies that oversee remuneration. Disclosures should include: • Name, composition and mandate of the main body overseeing remuneration. • External consultants whose advice has been sought, the body by which they were commissioned, and in what areas. • Scope of the bank's remuneration policy (eg by regions, business lines, entities). • Applicability of the bank's remuneration policy to foreign subsidiaries and branches. • Types of employees considered as material risk takers.

	(b)	Information relating to the design and structure of remuneration processes. Disclosures should include: • Key features and objectives of remuneration policy. • Frequency of review, date of last review, significant changes made at last review. • How the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.
	(c)	Description of the measures used to take account of current and future risks in their remuneration processes, and how these measures complement or are linked to the bank's overall risk management framework. Disclosures should include: • Key risks that the bank takes into account when implementing remuneration measures. • Measures used to take account of these risks. • Ways in which these measures affect remuneration. • How these measures have changed over the past three years, and reason(s) for change, as well as the impact of changes on remuneration. • A discussion of how these measures complement or are linked to the bank's overall risk management framework.
	(d)	Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration. Disclosures should include: • Main performance metrics for bank and top-level business lines, in particular the profit or income components used in making decisions on variable remuneration. • Main performance metrics for individuals (scorecard/other). • A discussion of how individual remuneration has been tied to bank-wide and individual performance. • What measures the bank will implement to adjust remuneration in the event that performance metrics are weak.[2]
	(e)	Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance. Disclosures should include: • Bank's policy on deferral and vesting of variable remuneration. • Bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through clawback arrangements.
	(f)	Description of the different forms of variable remuneration that the bank utilises and the rationale for using these different forms. Disclosures should include: • Forms of variable remuneration offered (eg cash, equity, options, long-term incentive plans). • Discussion of the parameters used to allocate cash vs equity (or equity-type) remuneration for different staff categories. • Discussion of the parameters used to allocate fixed/ variable remuneration for different staff categories. • Discussion of the parameters used to allocate deferred/non-deferred remuneration for different staff categories.
Quantitative disclosures[3]	(g)	Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.
	(h)	The numerical values corresponding to the measures used to take account of the key risks included in risk adjustement methodologies (see (c) above).[4]

[2] This should include the bank's criteria for determining "weak" performance metrics.

[3] Quantitative disclosures should be broken down between (a) senior management, (b) other material risk takers, and (c) financial and risk control staff. The definitions should be disclosed.

[4] For example, if economic capital is used, amount of economic capital allocated to key risks.

	(i)	• Total bankwide remuneration for the financial year, broken down into fixed and variable. • Total number of employees receiving a variable remuneration covered by the risk adjustment process. • Number and total amount of guaranteed bonuses paid during the financial year. • Number and total amount of sign-on awards paid during the financial year. • Number and total amount of severance payments made during the financial year. • Number and total amount of remuneration's adjustments performed during the financial year to reflect weak performance metrics (ie corresponding to the measures referred to in item (d) above).
	(j)	• Total amount of outstanding deferred compensation, split into: - vested[5] and unvested. - cash, equity and other forms. • Total amount of deferred remuneration paid out in the financial year, broken down by year of the original award. • Total reductions in deferred compensation due to performance adjustment measures other than variation in share price.
	(k)	• Breakdown of total value of remuneration awards for the financial year to show: - fixed and variable. - deferred and non-deferred. - different forms used (cash, equity, other). Example for reporting in Table A (Annex). • Breakdown of total remuneration expenses for the financial year to show: - awards relating to current year. - awards relating to prior years. Example for reporting in Table B (Annex).

[5] Vested but still subject to a retention period.

Annex

Tables to be completed separately for (a) senior management, (b) other material risk takers, and (c) financial and risk control staff.

Table A

Total value of awards for the current fiscal year	**Unrestricted**	**Deferred**
Fixed remuneration		
• Cash-based	x	x
• Equity-based	x	x
• Other	x	x
Variable remuneration		
• Cash-based	x	x
• Equity -based	x	x
• Other	x	x

Table B

Total compensation expense for the current fiscal year	**Related to awards of current fiscal year**	**Related to awards for prior years**
Cash	x	x
Equity-based	x	x
Other	x	x